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TO : DEPARTMENT OF STATE

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A good summary

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SUMMARY

the
announcement that Saudi Arabia would purchase a complete air defense system from U.S. and UK manufacturers, led to allegations in the regional Arab press that Faysal is in league with CENTO to oppose Nasser and Arab socialism. These allegations, if believed by Nasser, could have an adverse effect on the Saudi-UAR rapprochement which is already being strained by the failure of the Yemeni Republicans and Royalists at Haradh to make any progress toward formation of a provisional government.

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relevant

The long, involved task of selecting a viable air defense system for Saudi Arabia was finally concluded December 7 when Minister of Defense and Aviation Prince SULTAN signed a Letter of Intent with a consortium of British firms to purchase a \$400 million package consisting of British-made Lightning interceptors and U.S. Hawk surface-to-air missiles. The Letter of Intent with Raytheon, manufacturers of the Hawk, was signed December 20. The final decision to purchase the mixed US-UK package rather than the all-U.S. proposal offered by Lockheed was ostensibly taken for reasons of price and technical considerations. However, it was evident that Faysal and Sultan ultimately opted for the mixed package because they believed that it was the proposal the U.S. Government wanted them to accept. This decision to award the major role in Saudi Arabia's air defense system to a predominately British consortium will probably result in an expansion of British commercial influence in Saudi Arabia, particularly in the field of military hardware, and will presumably result in British instructors taking over primary responsibility from the U.S. for training the Royal Saudi Air Force.

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Two minor labor incidents were reported at Aramco during the month, neither of which appears to have been instigated by the clandestine labor organization believed to exist among Aramco employees.

While U.S. efforts to advise the Saudis in improving their armed forces have been affected by the decision to give the lion's share of the air defense system to a British consortium, Prince Sultan indicated to the Chief of the U.S. Military Training Mission that he would welcome USMTM's suggestions as to how the air defense system should be supervised. Efforts are also underway to obtain a Saudi decision regarding the new Letter of Offer for the purchase

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of U.S. wheeled vehicles for the Saudi Armed Forces. Visits by COMIDEASTFOR units to both Jidda and the Eastern Province have helped to demonstrate our continued readiness to defend Saudi Arabia's integrity. Implementation of the recently-signed agreement for joint U.S.-Saudi construction of a desalination plant in Jidda got underway during December with the visit of an official from the U.S. Department of the Interior for discussions with Saudi Ministry of Agriculture officials responsible for the project.

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I. FOREIGN RELATIONS

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full support should they be attacked.

B. Faysal's Visit to Iran

One concrete result of these discussions was the initialling, on December 13, of a draft agreement between Saudi Arabia and Iran to demarcate the continental shelf in the Gulf between their respective coastlines. (Surveys to determine the median line in the Gulf between Saudi Arabia and Iran have already been largely completed by a U.S. military mapping and aerial photography team acting at the request of the two governments.)

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INTERNAL AFFAIRS

II. INTERNAL AFFAIRS

A. Air Defense System Negotiations Concluded

The long, involved task of selecting a viable air defense system for Saudi Arabia was finally concluded in early December with the Saudi Government opting to buy a mixed package comprising British-built Lightning Mk III interceptors and U.S.-manufactured Hawk surface-to-air missiles. Despite the King's alleged decision on November 20 to open negotiations with the British firms involved in the mixed package, Lockheed representatives -- who had sought this contract diligently for over a year -- returned to Riyadh in a last but ultimately unsuccessful attempt to sell the Saudis an all-U.S. package based on the F-104G. While the Minister of Defense and Aviation seemed to be wavering between the two offers in early December, on December 7 he signed a Letter of Intent with representatives of the British Aircraft Corporation, maker of the Lightning, and its British associates in the consortium. Saudi negotiations with Raytheon, manufacturer of the Hawk missile, were successful.

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concluded December 20. The conclusion of the agreement was publicly announced by the Saudi Government on the following day.

The agreement is designed to give Saudi Arabia an up-to-date air defense system capable of coping with high-altitude, supersonic air attacks on the Kingdom. Under the agreement Saudi Arabia is to purchase three squadrons (40 aircraft) of Lightning Mach 2 interceptors, British-made 3-D radars, related communications equipment, and ten batteries of Hawks, together with the necessary training and maintenance facilities. The total package (excluding ground construction costs and other extras) is expected to cost Saudi Arabia approximately \$400 million to be paid over a period of 14 years.

BI(A)(S) Through much of November, Sultan and his Saudi advisors were understood to prefer the F-104 package. The Saudis later claimed that their decision to buy Lightnings instead was made on grounds of lower price and, to a lesser extent, on technical considerations, including the F-104's allegedly high accident rate.

BI(A)(S) 7 However, once the King and Sultan had assured themselves that purchase of the joint package would not affect their relations with the U.S., they presumably saw no reason not to satisfy the British as well by awarding them a valuable contract. Any last Saudi hesitations to buy Lightnings were apparently swept aside when the British on December 6 offered a dramatic \$14 million price reduction to the Saudis.

It is too soon, of course, to assess all the probable consequences of the award of this major contract to a predominately British consortium. However, British commercial influence in Saudi Arabia has definitely been enhanced and the British presumably will have an advantage in bidding for future contracts for air defense items. The training of the Royal Saudi Air Force, hitherto primarily a U.S. responsibility, will presumably now be taken over almost entirely by UK instructors except perhaps for the transport squadron which uses U.S.-built C-123s and C-130s. This will, of course, raise new problems of coordination between the US and the UK training efforts with the RSAF and is certain to erode the role of the Chief, U.S. Military Training Mission to Saudi Arabia, as the primary advisor on all military matters to the Minister of Defense and Aviation.

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C. Labor

During the month Consulate General Dhahran reported the occurrence of two minor labor disputes at Aramco's Ras Tanura refinery (ConGen's A-81 and A-82). Both disputes reportedly arose out of complaints over job classifications. Despite this similarity, however, neither case showed signs of having been deliberately instigated by the clandestine organization believed to exist among Aramco employees and which is suspected of having been responsible for the November 20 sit down strike at the Dhahran Heavy Equipment Shop. These

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latest incidents do, however, point to an area of employee dissatisfaction, particularly among intermediate staff, that could potentially be exploited as an issue by elements hostile to Aramco management.

III. U.S.-SAUDI RELATIONS

A. Political-Military Affairs

U.S. efforts to assist the Saudi Government in selecting and implementing a viable air defense system continued to be the focus of considerable attention during the month. Although the Saudi decision, as indicated above, ultimately favored a predominately British consortium of companies, the King and other Saudi officials took the initiative in assuring U.S. Government officials that this "commercial" decision in no way lessens the primacy which the Saudi Government places on its relationship with the United States. While the Embassy believes that the U.S. Government's unwillingness to indicate a clear preference between the two competing air defense packages has lowered Faysal's opinion about the frankness of our advice on this matter, we do not believe that any lasting damage to our relationship has occurred. On December 21 Brigadier General LEAHY, Chief, USMTM, assured Minister of Defense and Aviation Prince Sultan of USMTM's desire to continue to render him all appropriate assistance. Sultan said that he would notify his staff to give USMTM full access to all details of the US and UK air defense proposals and requested USMTM's recommendations as to how the air defense system should be supervised.

Efforts to implement another long-standing U.S. recommendation regarding procurement of automotive vehicles for the Saudi Army were revived during December. At the request of the Saudi Chief of Staff, USMTM officers on December 21 briefed Prince Sultan on the latest Letter of Offer for US military wheeled vehicles. (Previous U.S. Letter of Offers for this equipment expired when Sultan took no action.) Following the briefing, Sultan indicated his desire to reach an early decision on the procurement of wheeled vehicles for his armed forces. According to USMTM, appears to be the driving force behind concluding this sale and is pressing for a decision on the U.S. Letter of Offer.

B. U.S. Navy Visits to Saudi Arabia

In keeping with our efforts to foster friendly contacts with Saudis and our desire to demonstrate our continued readiness to defend Saudi Arabia's integrity, U.S. naval units visited both Jidda and the Eastern Province during the month. The USS DUXBURY BAY, flagship of the Commander, Middle East Force based on Bahrain, called at Damman and Ras Tanura on December 4-5, with Captain P.L. MURPHY, MIDEASTFOR Chief of Staff embarked. The USS MCCAFFERY, a destroyer attached to MIDEASTFOR, visited Jidda December 15-20. During the latter visit the ship's Captain and the Charge d'Affaires jointly hosted a

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buffet dinner and film show to which about 30 Saudi Foreign Ministry officials were invited.

C. Desalination Project

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The Jidda desalination plant project got underway during December with opening by the Saudi Government of a \$14 million letter of credit for the estimated total cost of the project. Mr. Raymond C. COULTER, Assistant Solicitor of the Department of the Interior, visited Jidda and Riyadh December 14-20 for discussions with Minister of Agriculture Hassan MISHARI and the liaison officer for the project, Prince MUHAMMAD bin Faysal. While delays in implementation are anticipated owing to the lack of Saudi technicians, and problems connected with the distribution of the proposed plant's combined output of desalted water and electricity, the Embassy believes these difficulties can be overcome. One particular asset in favor of the project is the high enthusiasm of Prince Muhammad whose personal commitment to the project and position as the son of the King promise a smoothly running project which will reflect credit on both the U.S. and Saudi Governments and on the firms employed.

For the Charge d'Affaires, a.i.:

Brooks Wrampelmeier

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Second Secretary of Embassy

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